

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 SP-02 ICA-11 AID-05 EB-08 NSC-05
TRSE-00 SS-15 STR-07 OMB-01 CEA-01 CIAE-00 INR-10
NSAE-00 PA-01 /079 W
-----084241 290548Z /15

R 280745Z APR 78
FM AMEMBASSY LUXEMBOURG
TO SECSTATE WASHDC 6369
INFO USDOC WASHDC
AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMEMBASSY PARIS

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E.O. 11652: N/A
TAGS: EINV EIND LU
SUBJ: SHUTDOWN OF GENERAL MOTORS OPERATIONS IN LUXEMBOURG

1. GENERAL MOTORS MANAGER IN LUXEMBOURG, MR. JEAN KAYSAN, A LUXEMBOURGER, TOOK ME ASIDE AT DINNER ON APRIL 25 TO TELL ME THAT GM IS PLANNING TO CLOSE DOWN ITS TEREX DIVISION EARTHMOVING EQUIPMENT PLANT IN LUXEMBOURG. HE SAID A TEAM OF GM OFFICIALS FROM THE UNITED STATES WOULD BE IN LUXEMBOURG NEXT WEEK TO BREAK THE NEWS TO PRIME MINISTER THORN (WHO IS ALSO MINISTER OF ECONOMY) AND OTHER GOL OFFICIALS. HE SAID THAT THE DECISION TO CLOSE DOWN IS IRREVERSIBLE, FOLLOWING TWO CONSECUTIVE YEARS OF SERIOUS FINANCIAL LOSSES AND VIRTUALLY NO HOPE FOR AN UPTURN IN THE FUTURE. THE PLANT IS PRESENTLY OPERATING AT 25-30 PERCENT OF CAPACITY AND SOME 325 EMPLOYEES, OF WHICH 120 ARE LUXEMBOURGERS, WILL BE LAID OFF. (THE REMAINING 200 ARE FRENCH AND BELGIAN BORDER CROSSERS.) KAYSAN SAID GM IS AWARE OF THE SOCIAL AND ECONOMIC PROBLEMS--NOT TO MENTION BAD
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PUBLICITY--THE GM DECISION WILL ENTAIL.

2. WITH MR. KAYSAN'S APPROVAL I TOLD PRIME MINISTER THORN'S EXECUTIVE ASSISTANT, PAUL HELMINGER, ABOUT THE GM DECISION AND SAID THAT WHILE I ASSUMED HE WOULD WANT TO FOREWARN PRIME MINISTER THOR, THE DECISION SHOULD OBVIOUSLY BE KEPT STRICTLY CONFIDENTIAL UNTIL

GM OFFICIALS HAD A CHANCE TO EXPLAIN IN PERSON. HELMINGER AGREED. HE SAID THAT DURING HIS TRIP TO THE UNITED STATES LAST MONTH THE PRIME MINISTER HAD BEEN WARNED BY A HIGH GM EXECUTIVE THAT A DECISION TO CLOSE WAS IMMINENT. HELMINGER HOPED THAT AT LEAST THE TIMING OF AN ANNOUNCEMENT COULD BE DISCUSSED. HE SAID THAT THE LOSS OF JOBS WOULD COME AS A PARTICULARLY HEAVY BLOW IN THE MIDDLE OF CONTINUING RECESSION AND RISING UNEMPLOYMENT (LATEST FIGURES SHOW UNEMPLOYMENT UP THIS YEAR FROM ABOUT 650 TO 1000 -- A SIGNIFICANT PERCENTAGE FOR LUXEMBOURG WHERE UNTIL RECENT YEARS UNEMPLOYMENT WAS VIRTUALLY UNKNOWN).

3. ALTHOUGH KAYSAN WAS FULLY AWARE OF ALL THE IMPLICATIONS OF THE GM DECISION, I POINTED OUT IN MY CONVERSATION WITH HIM THAT GM WOULD BE THE FIRST AMERICAN MULTINATIONAL COMPANY TO CLOSE DOWN SIGNIFICANT OPERATIONS IN LUXEMBOURG AND THAT THE DECISION WOULD UNDOUBTEDLY BE SUBJECT TO HEAVY PRESS AND LABOR UNION CRITICISM. I ADDED THAT THERE COULD BE UNFAVORABLE REPERCUSSIONS IN NEIGHBORING EUROPEAN COUNTRIES AND THAT THE DECISION COULD COMPLICATE THORN'S EFFORTS TO BRING NEW AMERICAN INVESTMENT TO THE GRAND DUCHY. I ALSO SAID THAT I WOULD APPRECIATE AN APPOINTMENT TO TALK TO THE GM EXECUTIVES WHO WERE COMING TO LUXEMBOURG BEFORE THEY SAW THE PRIME MINISTER. KAYSAN ACKNOWLEDGED THESE LIMITED OFFICIAL USE

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PROBLEMS BUT SAID THAT GENERAL MOTORS HAD TAKEN THEM ALL INTO ACCOUNT BEFORE RELUCTANTLY REACHING ITS DECISION. HE SAID HE WOULD PASS ALONG MY REQUEST TO SEE THEM TO THE GM EXECUTIVES WHO WOULD BE COMING NEXT WEEK.

4. BACKGROUND FOR DEPARTMENT AND USDOC. THE LUXEMBOURG GM PLANT BEGAN PRODUCTION IN 1971, BUT GOT OFF TO A SLOW START BECAUSE OF A RECESSION IN THE CONSTRUCTION, PUBLIC WORKS AND ENGINEERING INDUSTRIES IN EUROPE AT THAT TIME. THE ORIGINAL GROWTH AND EXPANSION PROJECTED FOR THE PLANT WERE NEVER ACHIEVED. 1975 WASN HOWEVER, AN EXCELLENT YEAR WHEN THE PLANT OPERATED AT 90 PERCENT OF CAPACITY, HAD A TURNOVER OF ONE BILLION FRANCS AND EMPLOYED 400 WORKERS. AN ABRUPT DOWNTURN FOLLOWED IN 1976 AND 77 AND THE PLANT WAS CONTINUED IN 1978 TO OPERATE AT ABOUT 25-30 PERCENT OF CAPACITY. THE PLANT SOLD APPROXIMATELY FIFTY PERCENT OF ITS PRODUCTION WITHIN EUROPE, THE BULK OF IT WITHIN THE COMMON MARKET,, AND FIFTY PERCENT TO AFRICA AND THE MIDDLE EAST. IN 1976 AND 77 THE MIDDLE EAST AND AFRICAN MARKETS VIRTUALLY COLLAPSED DUE TO JAPANESE COMPETITION. MORE-

OVER, THE LUXEMBOURG OPERATION COSTS COMPARED UNFAVORABLE
WITH THE COMPANY'S TEREX PLANT IN SCOTLAND. UNDER THESE
CONDITIONS, GM OFFICIALS SEE NO WAY TO MAKE THEIR OPERA-
TIONS PROFITABLE--OR EVEN TO BREAK EVEN--IN THE FORE-
SEEABLE FUTURE.LOWENSTEIN

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: MOTORS, CLOSURE OF OFFICES, INDUSTRIAL PLANTS
Control Number: n/a
Copy: SINGLE
Draft Date: 28 apr 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978LUXEMB00459
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D780183-0603
Format: TEL
From: LUXEMBOURG
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t1978045/aaaaadyj.tel
Line Count: 121
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: e48112ad-c288-dd11-92da-001cc4696bcc
Office: ACTION EUR
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 05 may 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: N/A
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2947782
Secure: OPEN
Status: NATIVE
Subject: SHUTDOWN OF GENERAL MOTORS OPERATIONS IN LUXEMBOURG
TAGS: EINV, EIND, LU, GENERAL MOTORS
To: STATE
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/e48112ad-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014